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## Network Engines Reports Second Consecutive Quarter of Profit in Fiscal Fourth Quarter

*Delivers Eighth Consecutive Quarter of Revenue Growth, Reports \$81.2 Million in Revenues for Fiscal Year 2003*

CANTON, Mass.--(BUSINESS WIRE)--Nov. 6, 2003--

Network Engines, Inc. (NASDAQ: NENG), a leading development, manufacturing and distribution partner for storage and security software and network equipment providers, today reported solid fiscal fourth quarter and year-end results for the period ending September 30, 2003. Overall results for the quarter were in-line with previous guidance, with net income and operating expenses better than the Company's previous guidance.

### Fourth Quarter Financial Performance Highlights

- Net revenues increased 7 percent sequentially to \$28.8 million in the quarter. Sales to a single customer were 42 percent of total net revenues in the fourth quarter, compared to 48 percent in the prior quarter.
- Gross profit was 20.0 percent compared to 20.6 percent in the prior quarter.
- Operating expenses were \$4.8 million, compared to \$5.3 million in the prior quarter. Fourth quarter operating expenses included a reversal of a first quarter restructuring charge of approximately \$377,000 and the reversal of \$175,000 of an estimated legal liability recorded in the third quarter.
- GAAP net income, including the reversal of the aforementioned charges, increased to \$1.1 million, or \$0.03 per share, compared to \$408,000, or \$0.01 per share, in the prior quarter.
- Cash and cash equivalents totaled \$36.8 million at the close of the quarter, compared to \$38.6 million at the close of the prior quarter.

"The results for our fiscal year 2003 reflect a dramatic turnaround for Network Engines," said John Curtis, President and Chief Executive Officer of Network Engines. "Our results reflect the continuing success of our business strategy. We are seeing increasing acceptance of our unique value proposition by our customers and software partners. We recently announced new application partners, including KVS, Inc., Computer Associates International, Inc. and CommVault Systems, Inc., that we will work with to develop and distribute server appliances into our customer base of over 400 channel customers in the growing storage and security networking markets."

### Fourth Quarter & Fiscal-Year Financial Performance

Net revenues for the fiscal fourth quarter of 2003 increased 7 percent to \$28.8 million, compared to \$27.0 million reported in the fiscal third quarter of 2003. Fiscal year 2003 net revenues increased to \$81.2 million compared to \$14.5 million for the year ended September 30, 2002. The Company reported net income on a GAAP basis of \$1.1 million, or \$0.03 per share, for the fourth quarter compared to \$408,000, or \$0.01 per share, in the quarter ended June 30, 2003. Fiscal year 2003 net loss decreased to \$1.4 million, or \$0.04 per share, compared to a net loss in fiscal year 2002 of \$14.1 million or \$0.44 per share.

### OEM Appliance Achievements

Revenues from the OEM Appliance business were \$14.0 million, compared to \$14.4 million in the prior quarter, with the decrease primarily due to the timing of shipments to the Company's largest customer. Additionally, the Company continued to develop its relationships with new partners and strengthen relationships with existing partners. Achievements during the quarter included:

- Further diversification of its revenue base with shipments to two new OEM customers.
- One of the new OEM customers was BorderWare Technologies, Inc. for whom the Company will provide appliance development, manufacturing and fulfillment services for their family of firewall appliances.

#### Distribution Operations Achievements

Revenues from distribution operations showed strong results increasing 17 percent to \$14.8 million, compared to \$12.6 million in the prior quarter. Substantially all of the revenue was from the distribution of third party data storage products. Recent appliance distribution achievements included:

- Announced general availability of the FalconStor Virtual Tape Library (VTL(TM)) Appliance, designed to accelerate the backup and restoration of data with minimal operating cost while consolidating the management and provisioning of backup resources.
- Announced general availability of release 2.0 of the Funk Steel-Belted Radius(R) Enterprise Edition Appliance. Built around Funk Software's latest version, the new appliance offers expanded functionality to meet customer needs for Radius Authentication for secure network access.
- Announced the Authenex Strong Authentication System (ASAS(TM)) appliance that protects the network by providing strong (two-factor) authentication for VPN, LAN and web access. General availability is expected to occur at the end of November.
- New appliance development and distribution partnerships recently announced also included:
- Computer Associates International, Inc., one of the world's largest business software companies;
- KVS, Inc., a developer of email archiving, compliance and management software; and
- CommVault Systems, Inc., a provider of unified enterprise data management solutions.

#### Business Outlook

Based on current forecasts from certain partners and historical and seasonal trends, the Company anticipates the following for its first fiscal quarter ending December 31, 2003:

- Net revenues in the range of \$30 million to \$34 million.
- OEM appliance revenues between \$15 million and \$18 million.
- Distribution revenues between \$15 million and \$16 million.
- Operating expenses between \$5.5 million and \$5.8 million.
- Gross profit in the range of 19 percent to 21 percent.
- Net income on a GAAP basis in the range of \$500,000 to \$1.5 million.
- Cash position between \$33 million and \$35 million.

"Maintaining and growing profitability remains a key financial goal," said Doug Bryant, Vice President of Finance and Administration and Chief Financial Officer. "We remain committed to investing in our business while continuing to control costs, manage our cash and maintain a strong balance sheet."

#### Conference Call Details

In conjunction with this announcement, Network Engines will host a conference call today at 10:00 a.m. ET to discuss the fiscal 2003 fourth quarter and fiscal year results. The conference call will be available live at the Company's website at [www.networkengines.com](http://www.networkengines.com) and will be archived on the site.

#### About Network Engines

Network Engines (NASDAQ: NENG) is a leading development, manufacturing and distribution partner for storage and security software and network equipment providers. The Company works with its software partners to develop, manufacture, and distribute server appliances for mission-critical storage and security networking applications. Network Engines' distribution operations offer a full complement of server appliances, related products and components to over 400 value-added resellers and systems integrators who provide storage and security networking solutions to the enterprise. Headquartered in Canton, Massachusetts, Network Engines was founded in 1997. For additional information on the Company's products and services visit [www.networkengines.com](http://www.networkengines.com).

#### Safe Harbor for Forward-Looking Statements

Statements in this press release regarding Network Engines' future financial performance including statements regarding future revenue, gross profit, operating expenses, net income and cash position, and any other statements about Network Engines' management's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company's actual results could differ materially from those stated or implied in forward-looking statements due to a number of factors, including those factors contained in the Company's most recent Annual Report on Form 10-K for the year ended September 30, 2002 and most recent Form 10-Q for the quarter ended June 30, 2003 under the section "Factors That May Affect Future Operating Results" as well as other documents that may be filed by the Company from time to time with the Securities and Exchange Commission. Forward-looking statements include statements regarding the Company's

expectations, beliefs, intentions or strategies regarding the future and can be identified by forward-looking words such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "should", "will", and "would" or similar words. The Company assumes no obligations to update the information included in this press release.

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Network Engines, Inc. Condensed Consolidated Statements of Operations (in thousands, except per share data) (unaudited)					
	Three Months Ended			Year Ended	
	Sept. 30, 2003	June 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002
Net revenues	\$28,825	\$27,003	\$5,269	\$81,243	\$14,534
Cost of revenues	23,056	21,448	4,157	64,505	12,476
Gross profit	5,769	5,555	1,112	16,738	2,058
Operating expenses:					
Research and development	1,307	1,096	976	4,114	4,693
Selling and marketing	2,147	1,933	990	6,519	3,836
General and administrative	1,233	1,741	868	5,857	4,602
Stock compensation	228	229	219	928	4,291
Amortization of intangible assets	254	254	-	762	-
Restructuring and other charges	(377)	-	-	507	353
Total operating expenses	4,792	5,253	3,053	18,687	17,775
Income (loss) from operations	977	302	(1,941)	(1,949)	(15,717)
Other income	92	106	322	564	1,592
Net income (loss)	\$1,069	\$408	\$(1,619)	\$(1,385)	\$(14,125)
Net income (loss) per share - basic	\$0.03	\$0.01	\$(0.05)	\$(0.04)	\$(0.44)
Net income (loss) per share - diluted	\$0.03	\$0.01	\$(0.05)	\$(0.04)	\$(0.44)
Shares used in computing basic net income (loss) per share	34,647	33,749	31,230	33,142	32,270
Shares used in computing diluted net income (loss) per share	39,879	38,953	31,230	33,142	32,270

Network Engines, Inc. Condensed Consolidated Balance Sheets (in thousands)			Sept. 30, 2003	Sept. 30, 2002
ASSETS				
Current assets:				
Cash and cash equivalents			\$36,788	\$46,552
Short-term investments			-	8,546
Restricted cash			47	1,098
Accounts receivable, net			13,948	2,729
Inventories			14,937	1,956
Other current assets			1,946	1,065
Total current assets			67,666	61,946
Property and equipment, net			1,849	2,236
Goodwill			7,787	-
Intangible assets			4,310	-
Other assets			120	28
Total assets			\$81,732	\$64,210
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable			\$13,864	\$1,474
Accrued liabilities			2,763	1,468

Current portion of accrued restructuring and other charges	218	355
Deferred revenue	603	23
Current portion of capital leases and notes payable	-	14
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Total current liabilities	17,448	3,334
Long-term portion of accrued restructuring and other charges	60	-
Stockholders' equity:		
Common stock	382	357
Treasury stock	(2,838)	(4,707)
Additional paid-in capital	176,061	174,252
Deferred stock compensation	(433)	(1,185)
Stockholder notes receivable	-	(281)
Accumulated other comprehensive income	-	3
Accumulated deficit	(108,948)	(107,563)
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Total stockholders' equity	64,224	60,876
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Total liabilities and stockholders' equity	\$81,732	\$64,210
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"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Network Engines's business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.